

Student worksheet – Economic sciences prize 2021

Natural experiments help answer important questions



If we want to make good decisions, we need to understand the consequences of our choices. That's true for all of us, whether we're private citizens or elected officials or others in positions of power. This year's economic sciences laureates, **David Card**, **Joshua Angrist** and **Guido Imbens**, have demonstrated that natural experiments can be used to answer important societal questions, such as how raising the minimum wage affects unemployment and how the length of a person's education affects their income later in life.

Young people who are choosing an educational path would really like to know how their choices are going to affect their future careers. Politicians who are considering raising taxes would like to know how it will affect the labour market and the employees in it. The problem is that it's difficult to determine the consequences of different policy choices.

In natural science research, randomly selected groups are combined with control groups to study causal relationships. The method is used for things like determining how effective a new medication is. But that method cannot be used in this case. We can't leave it to chance to determine who gets to apply to a certain educational programme or who has to pay higher taxes.

This year's economic sciences laureates have given us new insight into the labour market and demonstrated what conclusions can be drawn about cause and effect from natural experiments. Their methods have also spread to other areas of research and have revolutionized empirical research.

Vocabulary

NATURAL EXPERIMENTS Experiment-like situations that arise in real life, either by chance or as a result of public policy decisions.

EMPIRICAL RESEARCH Research that is based on observations of the real world.

What do you think?

What is the most interesting part of the laureates' work?

Alfred Nobel wanted the Nobel Prizes to be awarded to people who worked for the greatest benefit to humankind. What is the greatest benefit of the laureates' contributions?
